

India

**HOLD** (no change)

Consensus ratings\*: Buy 4 Hold 3 Sell 1

Current price: Rs240  
 Target price: ▼ Rs250  
 Previous target: Rs310  
 Up/downside: 4.2%  
 InCred Research / Consensus: -19.2%

Reuters:  
 Bloomberg: SPANDANA IN  
 Market cap: US\$195m  
 Rs17,103m  
 Average daily turnover: US\$1.1m  
 Rs96.5m  
 Current shares o/s: 0.0m  
 Free float: 16.0%  
 \*Source: Bloomberg

**Key changes in this note**

- We revise downwards our earnings estimates due to slower-than-expected improvement in asset quality and growth.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(14.4)	(15.2)	(57.1)
Relative (%)	(13.2)	(13.4)	(57.2)

Major shareholders	% held
KEDAARA CAPITAL	48.1
VALIANT	7.7
GOLDMAN SACHS	3.8

**Research Analyst(s)****Meghna LUTHRA**

T (91) 22 4161 1553

E meghna.luthra@incredresearch.com

# Spandana Sphoorty Financial

## Walking on a tight rope

- Spandana Sphoorty Financial reported another slow quarter, with 1Q operating loss at Rs0.6bn due to a further decline in the AUM & high asset quality stress.
- Disbursements remained subdued in 1Q at RsRs2.8bn, although they picked up some pace in Jul 2025 at Rs2.7bn. AUM declined by 27% qoq to Rs50bn.
- Some green shoots seen, with improving collection efficiency & disbursements in Jul 2025, though we await more stability. Retain HOLD with new Rs250 TP.

**Another subdued quarter with slow disbursements & operating loss**

Spandana Sphoorty Financial (SSFL) reported yet another quarter of net loss at Rs3.6bn in 1QFY26, weighed down by continued asset quality stress. Operating loss was Rs0.6bn as the topline declined further sequentially and opex remained high. The company continued to be cautious with fresh disbursements in 1QFY26, which stood at Rs2.8bn, and picked up some pace in Jul 2025 at Rs2.7bn. Consequently, assets under management or AUM declined further by 27% qoq to Rs50bn. The company has identified a customer base eligible for lending under the new guardrails, which accounts for ~50% of the existing and dormant customer base.

**Some incremental green shoots in asset quality but we await stability**

Gross stage-3 assets remained elevated at 5.5% vs. 5.6% qoq and gross stage-2 assets were at 7.9%. The collection efficiency (CE) X-bucket improved to 98.5% in Jul 2025, from 97.9% in Jun 2025, and a recent low of 96.9% in Apr 2025. The improving X-bucket CE indicates that the incremental stress in most states is abating, especially Karnataka, as excluding it results in only a 10bp improvement in the total X-bucket CE. Thus, credit costs remained high at 29%, or Rs4.3bn, although they included additional credit costs of Rs1.3bn on account of technical write-offs.

**NIM marred by sluggishness; high opex is another area of concern**

NIM dipped further by 250bp qoq to 8.2% due to elevated stressed assets and a decline in the AUM. Consequently, the opex-to-AUM ratio remained high at 14%, although the management is working on optimizing opex. The branch strategy was reviewed, resulting in a net rationalization of 84 branches, thereby bringing the branch count to 1,720. On the employee front, the loan officer count declined by 3,135 qoq.

**Outlook and valuation**

SSFL has completed its rights share issue, raising Rs4bn in Aug 2025, of which Rs2bn will be received upfront and the rest is callable within 24 months. This further adds to the capital adequacy comfort, with covenant breaches greater than Rs1.5bn and a liquidity of Rs17bn. SSFL is not only dealing with the industry-wide issue of asset quality stress and restricted growth amid the new guardrails but also faces the challenge of management stability, as the search for a new CEO has not yet ended. We await some stability and maintain HOLD rating on SSFL with a lower target price of Rs250 (Rs310 earlier), valuing it at 0.7x FY27F P/BV. Upside/downside risks: Sharply improving asset quality & disbursements and vice versa.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	13,113	12,621	6,164	9,477	14,147
Total Non-Interest Income (Rsm)	2,727	2,298	1,579	1,830	2,376
Operating Revenue (Rsm)	15,840	14,918	7,744	11,307	16,523
Total Provision Charges (Rsm)	(2,594)	(19,863)	(7,530)	(2,821)	(4,317)
Net Profit (Rsm)	5,007	(10,352)	(5,035)	1,084	2,858
Core EPS (Rs)	70.23	(145.16)	(70.61)	15.20	40.07
Core EPS Growth	3,917%	(307%)	(51%)	(122%)	164%
FD Core P/E (x)	3.42	(1.65)	(3.40)	15.77	5.99
DPS (Rs)	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
BVPS (Rs)	511.2	369.2	328.8	344.0	384.0
P/BV (x)	0.47	0.65	0.73	0.70	0.62
ROE	14.7%	(33.0%)	(20.2%)	4.5%	11.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly earnings summary**

Particulars (Rs m)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Net Interest Income	4,341.6	3,487.0	2,739.1	2,052.4	1,299.7	29.9%	-36.7%
NIM (% of AUM) Calculated	15.2%	11.3%	11.3%	10.7%	8.2%		
Fee-Based Income	434.5	994.4	696.7	282.3	204.0	47.0%	-27.7%
Operating Expenses	1,907.6	2,203.4	2,651.4	2,083.3	2,090.9	109.6%	0.4%
<b>Operating Profit</b>	<b>2,868.5</b>	<b>2,278.0</b>	<b>784.4</b>	<b>251.4</b>	<b>-587.2</b>	<b>-20.5%</b>	<b>-333.6%</b>
Provisions	2,118.0	5,164.1	6,660.7	6,027.6	4,221.7	199.3%	-30.0%
Exceptional Items	-	-	-	-	-		
<b>PBT</b>	<b>750.5</b>	<b>-2,886.1</b>	<b>-5,876.3</b>	<b>-5,776.2</b>	<b>-4,808.9</b>	<b>-640.8%</b>	<b>-16.7%</b>
Tax	-193.4	722.8	1,473.9	1,433.2	1,206.6	-623.9%	-15.8%
Tax Rate (%)	25.8%	25.0%	25.1%	24.8%	25.1%		
<b>PAT</b>	<b>557.1</b>	<b>-2,163.3</b>	<b>-4,402.4</b>	<b>-4,343.0</b>	<b>-3,602.3</b>	<b>-646.6%</b>	<b>-17.1%</b>
<b>AUM (Rs bn)</b>	<b>117.2</b>	<b>105.4</b>	<b>89.4</b>	<b>68.2</b>	<b>49.6</b>	<b>42.3%</b>	<b>-27.3%</b>
<b>Disbursements (Rs bn)</b>	<b>22.8</b>	<b>15.1</b>	<b>14.4</b>	<b>3.7</b>	<b>2.8</b>	<b>12.3%</b>	<b>-23.3%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

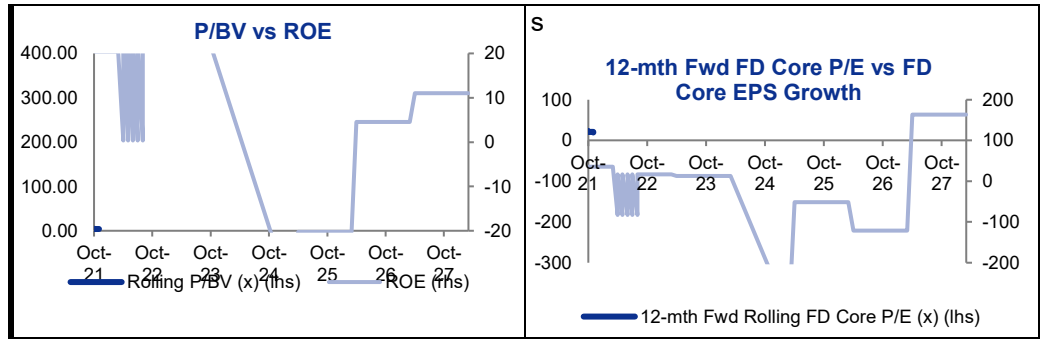
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	8,717	6,164	-29.3%	12,250	9,477	-22.6%	17,709	14,147	-20.1%
Non-Interest Income	2,019	1,579	-21.8%	2,108	1,830	-13.2%	2,637	2,376	-9.9%
PPOP	4,119	808	-80.4%	6,991	4,268	-39.0%	11,701	8,132	-30.5%
PAT	-4,196	-5,035	-	2,813	1,084	-61.5%	5,194	2,858	-45.0%
EPS (Rs)	-58.8	-70.6	-	39.5	15.2	-61.5%	72.8	40.1	-45.0%
BV (Rs)	310.4	328.8	5.9%	349.9	344.0	-1.7%	422.7	384.1	-9.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 1QFY26 earnings-call highlights ➤

- Post capital raising, SSFL's management reiterated its 20% yoy AUM growth guidance for FY26F, although we remain a tad conservative with our estimate.
- We will keep a close eye on forward flows, which inched up to 85% for special mention accounts or SMA 2 to gross NPAs vs. 81% in Jun 2025, while forward flows eased to 68% for SMA1 to SMA2.
- Loans disbursed since Jan 2025 have 100% collection efficiency.
- Recovery from the write-off pool/gross NPAs was Rs410m.
- ~85% of the identified customers have less than Rs0.1m indebtedness.
- CRAR stood at 40.8% as on 30 Jun 2025 and at 46% post capital raising.

## BY THE NUMBERS



### Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	13,113	12,621	6,164	9,477	14,147
<b>Total Non-Interest Income</b>	<b>2,727</b>	<b>2,298</b>	<b>1,579</b>	<b>1,830</b>	<b>2,376</b>
Operating Revenue	15,840	14,918	7,744	11,307	16,523
<b>Total Non-Interest Expenses</b>	<b>(6,540)</b>	<b>(8,843)</b>	<b>(6,936)</b>	<b>(7,039)</b>	<b>(8,391)</b>
Pre-provision Operating Profit	9,300	6,075	808	4,268	8,132
<b>Total Provision Charges</b>	<b>(2,594)</b>	<b>(19,863)</b>	<b>(7,530)</b>	<b>(2,821)</b>	<b>(4,317)</b>
Operating Profit After Provisions	6,706	(13,788)	(6,722)	1,447	3,815
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	6,706	(13,788)	(6,722)	1,447	3,815
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	6,706	(13,788)	(6,722)	1,447	3,815
<b>Exceptional Items</b>					
Pre-tax Profit	6,706	(13,788)	(6,722)	1,447	3,815
Taxation	(1,699)	3,436	1,687	(363)	(957)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	5,007	(10,352)	(5,035)	1,084	2,858
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	5,007	(10,352)	(5,035)	1,084	2,858
Recurring Net Profit					

### Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	95.2%	93.5%	87.6%	87.5%	89.6%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>115.4%</b>	<b>122.4%</b>	<b>127.1%</b>	<b>115.1%</b>	<b>109.2%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>Total Gross Loans</b>	<b>110,143</b>	<b>57,084</b>	<b>54,669</b>	<b>81,109</b>	<b>111,311</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	110,143	57,084	54,669	81,109	111,311
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	110,143	57,084	54,669	81,109	111,311
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>3,149</b>	<b>7,830</b>	<b>9,195</b>	<b>9,953</b>	<b>10,774</b>
<b>Total Non-Interest Earning Assets</b>	<b>3,623</b>	<b>8,316</b>	<b>9,673</b>	<b>10,470</b>	<b>11,333</b>
Cash And Marketable Securities	18,941	18,438	11,795	8,701	9,091
<b>Long-term Investments</b>	<b>1,118</b>	<b>1,098</b>	<b>971</b>	<b>1,181</b>	<b>1,435</b>
Total Assets	133,825	84,935	77,108	101,462	133,171
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	94,046	56,556	51,984	74,693	102,505
Total Interest-Bearing Liabilities	94,046	56,556	51,984	74,693	102,505
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	3,330	2,046	1,679	2,239	3,278
Total Liabilities	97,376	58,602	53,663	76,932	105,783
Shareholders Equity	36,446	26,331	23,443	24,528	27,385
<b>Minority Interests</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Total Equity	36,449	26,333	23,445	24,530	27,387

### Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	60.0%	(3.8%)	(51.2%)	53.7%	49.3%
Operating Profit Growth	65.4%	(34.7%)	(86.7%)	428.2%	90.5%
Pretax Profit Growth	3,661%	(306%)	(51%)	(122%)	164%
Net Interest To Total Income	82.8%	84.6%	79.6%	83.8%	85.6%
Cost Of Funds	11.97%	12.38%	8.97%	9.16%	10.71%
Return On Interest Earning Assets	23.8%	26.2%	19.7%	22.5%	24.6%
Net Interest Spread	11.87%	13.86%	10.77%	13.35%	13.86%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	28%	327%	932%	66%	53%
Interest Return On Average Assets	11.52%	11.54%	7.61%	10.61%	12.06%
Effective Tax Rate	25.3%			25.1%	25.1%
Net Dividend Payout Ratio					
Return On Average Assets	4.40%	(9.46%)	(6.21%)	1.21%	2.44%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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#### **InCred Research Services Private Limited**

##### **Research Analyst SEBI Registration Number: INH000011024**

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05<sup>th</sup> floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

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### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.